



Growing the Texas Economy

PAGE 2



Healthier Menus: Are They Paying Off?

PAGE 6



How Going Green Can Save Green

PAGE 8

FISCAL NOTES

A Monthly Review of the Texas Economy from the Office of Susan Combs, Texas Comptroller of Public Accounts, September 2007

JUNE REVENUE (IN MILLIONS): SALES TAX: \$1,642 OIL PRODUCTION: \$70.9 NATURAL GAS: \$157.3 MOTOR FUELS: \$265.9 MOTOR VEHICLE SALES: \$281.5 TOBACCO: \$127.7

Around Texas

- **UT Southwestern** and other medical groups received \$34 million from the National Institutes of Health to help turn lab discoveries into new treatments faster.
- **General Motors Corp.** kicked off a seven-city summer tour in downtown Houston in July to promote interest in its hybrid vehicles and ethanol-blended gasoline.
- **San Antonio's Texas Research Park** has been selected as one of five finalists vying to become the site of a \$500 million National Biological and Agro-Defense Facility.
- **In September**, Texas-based Woodforest Bank announced it will expand into Alabama Wal-Marts.

INSIDE

New Laws Affecting Texas Taxpayers

PAGE 12

Texas by the Numbers

PAGE 14



An Investment You Live In

Home Improvements a \$228 Billion Industry

It's an old truism that, for most of us, our home is our most important investment. But today, Americans are embracing that idea with greater fervor than ever — and pouring more money in to enhance their investments.

Call it Remodeling Nation: With shelves full of magazines and endless TV series devoted to home improvement, hundreds of thousands of professionals and millions of paint-spattered do-it-yourselfers, fixing up the old roost has become a major industry.

The U.S. Census Bureau estimates that Americans spent \$228.2 billion on improvements and repairs to residential properties in 2006, 6.1 percent more than in the previous year. State-level figures are not available, but assuming Texans matched the average national spending pace, they spent about \$18 billion on home repairs and improvements last



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Growing the Texas Economy

Landscaping, Gardening Industries Blossom

When it comes to planting trees and flowers, pruning shrubs and planning their patios, Texans take their lawns and gardens seriously. The state's horticulture industry has an estimated economic impact exceeding \$9.8 billion annually, according to a 2005 study by Texas A&M University.

That number includes growers and re-wholesalers, suppliers, mulch and fertilizer manufacturers, independent and big-box retailers, landscape contractors and tree service companies.

Nationally, the "green industry," or environmental horticulture industry, is a \$148 billion industry representing 2 million jobs, said Dr. Charlie Hall, the Ellison Chair in International Floriculture at Texas A&M's Department of Horticultural Sciences.

"The green industry in Texas has been growing quite rapidly, particularly on the horticultural services side," Hall said.

they participate in America's No. 2 leisure activity, which is gardening and landscaping," Hall said.

Saving Water

Despite an abnormally wet Texas spring and summer in 2007, water conservation is a huge trend for the state's gardeners, according to Marilyn Good, communications director for the Texas Nursery and Landscape Association (TNLA).

"People are looking at water conservation in their gardens and trying to find a balance between recreational use and the amount of water available to support the plant material for that use," she said. "It's impacting people's choice of plant material and design, so we see more creative and inventive use of hardscapes in places where maybe they shouldn't have been putting plants in the first place."

"Hardscaping" refers to any non-living decorative or functional item in the garden, Good said.



are loaded on trucks and shipped out. Landscape contractors need plant material when they're ready to install it, so as landscape contracting has grown, the traditional business model wasn't working, Good said.

Re-wholesalers store large quantities of product and are located close to urban areas to serve landscape contractors, who can visit on a daily basis to buy the trees, shrubs or other items they need for landscaping jobs.

"Re-wholesalers are folks that buy directly from growers," said Hall. "They'll accumulate the product, and landscapers will stop in to buy to take advantage of one-stop shopping."

Native Plants

The Texas backyard gardener is increasingly savvy. Conscious of drought issues and water conservation, Texans are seeking out low maintenance native grasses and plants, said Mark Buell with Buell's Wholesale Growers in San Antonio.

"We've been in business for 23 years, and the trend has really changed from the old standard bedding plants to drought-tolerant native plants," Buell said. "People want plants that they know will be successful. Plants that are native obviously require less care than plants that are not native to our area."

Examples include native Lantana, native Salvias and native grasses.

"Xeric," or xeriscaping plants are also popular, Buell said. Xeriscaping is a landscaping method that employs drought-resistant plants in an effort to conserve

"The green industry in Texas has been growing quite rapidly, particularly on the horticultural services side." Dr. Charlie Hall, Ellison Chair in International Floriculture, Texas A&M.

In Texas, landscape design and architecture and lawn maintenance services have grown more rapidly in recent years than the "growing" and retail sectors, Hall said. A strong housing market has driven that growth, he said. Recent slowing in the housing market could temper demand for lawn services but wouldn't necessarily hurt the industry, Hall said.

"Even when there's a slight economic downturn, people stay at home more, and

Homeowners are increasingly using technology to save water in their supplemental irrigation, for example, installing automatic rain sensor devices that shut off an irrigation system when it's raining.

One-stop Landscaping Shop

A new category, "re-wholesale" has sprung up in the horticulture industry to serve the growing landscape contracting sector, said Good.

Traditionally, growers deal in large quantities and ship to facilities where their plants

PJ Ellison-Kalil of Ellison Greenhouses, one of the top wholesale greenhouse operations in the state, located in Brenham, Texas.



resources, especially water. Popular xeriscaping plants include Blue Plumbago, Salvia Leucantha and Blackfoot Daisy, Buell said.

Marketing and Service

Hundreds of new perennials and plant options are available to the modern gardener, many more than were available 10 to 15 years ago, said G. Michael Shoup, owner and president of the Antique Rose Emporium in Brenham.

"People are a quick study today," he said. "They want what's new and what's different. We have seen trends in making sure we promote the marketing of these roses by putting showy labels on them and selling them in packages."



"Even when there's a slight economic downturn, people stay at home more, and they participate in America's No. 2 leisure activity, which is gardening and landscaping," Hall said.

In the landscape and lawn service sector, good service is in demand, according to James Wilhite, president and owner of Tyler-based Wilhite Landscaping Co.

"People want good, quality service," he said. "From the maintenance end, people are more sophisticated about what they want. They expect quality cuts."

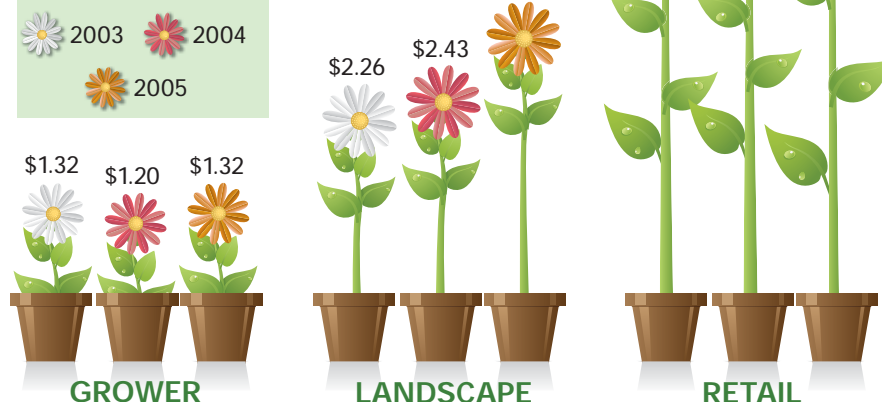
A negative trend that's putting the pinch on landscaping companies is rising fuel costs, said Wilhite.

"Everything we have needs fuel — the trucks, the blowers, the mowers, the weed eaters, the hedge trimmers," he said.

Growing Sales

Called the "Green Industry," the environmental horticulture industry is one of the fastest-growing agriculture sectors in the U.S. In Texas, total green industry sales rose 11 percent from 2004 to 2005.

Sales (in billions)



Source: *Economic Scope of the Green Industry in Texas* - Final Report to the Texas Nursery and Landscape Association, 2006.

Commercial Planting

Commercial landscaping clients also are interested in water-efficient designs. According to a survey by the American Society of Landscape Architects (ASLA), members expect an increase in client requests for storm water management solutions, the use of recycled materials and energy-efficient lighting, green roofs and native plants.

For more information, contact the ASLA at (202) 216-2371 or visit www.asla.org. The Texas Comptroller of Public Accounts tracks annual sales of green industry firms. For more information, visit www.window.state.tx.us or call (800) 531-5441, ext. 3-4900, or 463-4900 in Austin. **FN**

CONTINUED FROM PAGE 1

An Investment You Live In



year — roughly \$760 for every man, woman and child in the state.

How Do You Want to Pay for That?

Most Texans who borrow to pay for home improvement projects do so either through a home improvement loan or a home equity loan, according to Laurie Roberts, president of University Federal Credit Union's real estate group in Austin. Both have similar interest rates and closing costs, but each has its own advantages and disadvantages.

"A home equity loan is good in that you get all your money at once, and you can spend it exactly as you wish and with whom you wish, for instance to pay a tiler, a deck builder or other subcontractors," said Roberts. "But you can only do one a year, and the total of your mortgage and your home equity loan cannot exceed 80 percent of the home's fair market value."

Home improvement loans, by contrast, are less flexible but can be made for a greater share of your home's worth.

"A home improvement loan can go up to 100 percent of your home's value, so you could have a mortgage worth 80 percent and borrow another 20 percent," Roberts said. "The negative part is that you must have one general contractor to whom the payments are made. It's a simple choice if you already have or are planning to use a general contractor, but you don't have nearly the flexibility you have with a home equity loan."

Another increasingly popular option is the home equity-secured line of credit, which allows you to draw down money only as you need it, as if it were a savings account.

"A line of credit's great [for flexibility] — you're only paying interest on however much money you have drawn," Roberts said. "The disadvantage is that 99.9 percent of them are variable rate."

"So if you took out a home equity line of credit three years ago, you would have started with a very good interest rate, but today you'd be at 9.25 percent interest, which is pretty high," she said.

Recouping Your Costs

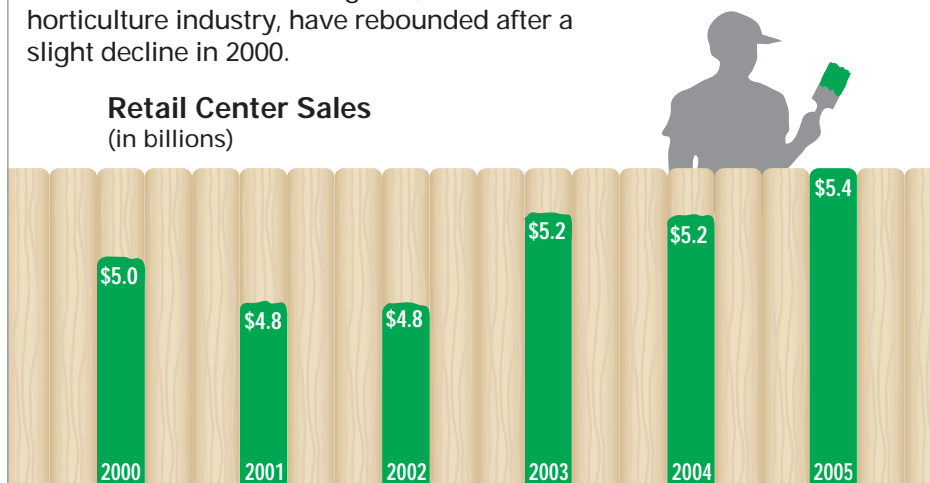
One of the best reasons for home improvement is to increase the value of your biggest financial asset, particularly if you're thinking of selling.

According to the annual Cost vs. Value Reports jointly prepared by the industry magazines *Remodeling* and *Realtor*, the red-hot U.S. housing market of recent years boosted remodeling activity, and the "re-coup value" of these projects — that is, the amount by which they raised the total value of the home — often paid for themselves in terms of value added. More recently, average recoup values have declined somewhat, tracking the general slowdown in housing sales. Even so, current recoup values represent a major discount off the cost of remodeling.

Center of Attention

Retail center sales in the "green," or environmental horticulture industry, have rebounded after a slight decline in 2000.

Retail Center Sales
(in billions)

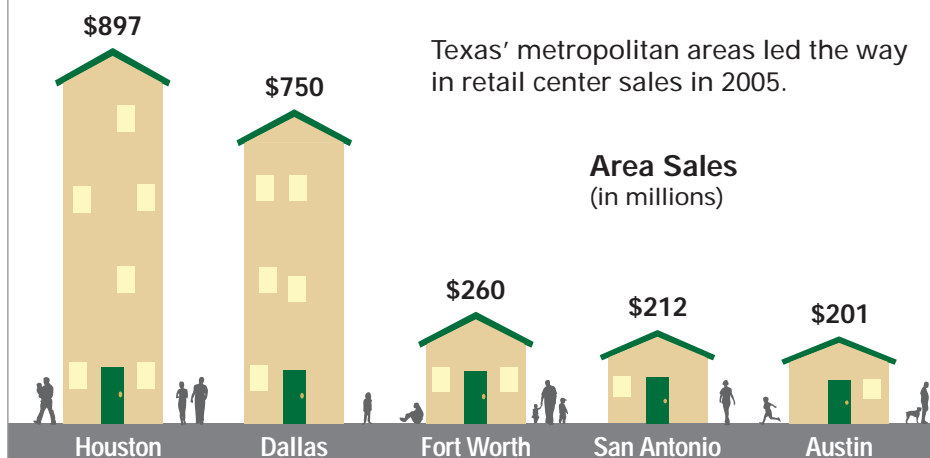


\$897

\$750

Texas' metropolitan areas led the way in retail center sales in 2005.

Area Sales
(in millions)



Source: Texas A&M Department of Agricultural Economics.

But not all improvements are equally valuable. The 2006 Cost vs. Value Report indicates that for the West South Central Region, including Texas, Louisiana, Oklahoma and Arkansas, midrange bathroom remodeling projects produced the greatest returns, averaging 86.6 percent of their cost in value added.

Other projects have far lower paybacks. In the 2006 report, for instance, sunroom additions found little favor with West South Central homebuyers, paying back an average of just 63.2 percent of the job cost.

"You can never go wrong with [improvements to] kitchens and bathrooms," said Matt Malone, an Austin-based realtor affiliated with Realty World. "That's bomb-proof." Malone has also seen growing interest in outdoor living areas that offer features such as built-in grills and fireplaces.

By contrast, "pools are iffy, because you decrease the number of potential buyers for the property," said Malone.

But of course, home improvements aren't just about resale value. "The home is a special place, a sacred place for many Texans, and most do these projects not to increase their return on investment, but for quality-of-life issues," said John Gormley, vice president of the Texas Association of Realtors. "If they want that new kitchen or swimming pool, most Texans will do it simply because it will improve their enjoyment of their home." **FN**



Recouping on Remodeling

The annual Cost vs. Value Report prepared by *Realtor* and *Remodeling* magazines compares average costs for 25 common home improvement projects with the average increase in the home's total value they produce. In Texas' region, recoup values for the projects ranged from 63.2 to 86.6 percent of costs.

Home Improvement Projects: Investment vs. Recoupment, 2006 For Arkansas, Louisiana, Oklahoma and Texas

ADDITIONS Midrange:

	Avg. Job Cost	Avg. Resale Value	Cost Recouped (%)
Bathroom	\$25,563	\$19,747	77.2%
Deck	14,006	10,601	75.7
Family room	67,285	46,020	68.4
Master suite	84,411	59,331	70.3
Sunroom	45,889	29,000	63.2
Second story	94,918	70,883	74.7

Upscale:

Bathroom	\$55,453	\$41,885	75.5%
Master suite	163,192	113,529	69.6

REMODELS Midrange:

Attic bedroom	\$38,520	\$29,572	76.8%
Basement	50,632	43,123	85.2
Bathroom	11,585	10,034	86.6
Home office	18,529	12,156	65.6
Kitchen (major)	50,978	40,319	79.1
Kitchen (minor)	17,037	14,033	82.4

Upscale:

Bathroom	\$35,111	\$27,862	79.4%
Kitchen (major)	103,879	79,139	76.2

REPLACEMENTS

Midrange:

Roofing	\$11,209	\$9,553	85.2
Siding (vinyl)	8,218	6,593	80.2
Window (wood)	10,038	7,946	79.2
Window (vinyl)	9,284	6,931	74.7

Upscale:

Roofing	\$19,759	\$15,799	80.0
Siding (fiber cement)	12,874	11,102	86.2
Siding (foam-backed vinyl)	10,101	7,777	77.0
Window (wood)	15,694	12,355	78.7
Window (vinyl)	11,888	9,410	79.2

Source: *Realtor* magazine,
[http://www.realtor.org/rmomag.NSF/files/Cost_vs_Value06.pdf/\\$FILE/Cost_vs_Value06.pdf](http://www.realtor.org/rmomag.NSF/files/Cost_vs_Value06.pdf/$FILE/Cost_vs_Value06.pdf).

Are Healthier Menus Paying Off?

Nutrition Business Drives Texas

The health food industry is a heavy-weight in America. The healthy foods sector of the nation's nutrition industry is estimated at \$110 billion annually, according to a 2006 study by the *Nutrition Business Journal*.

The nutrition craze accompanies increased media attention on

Calories: Measuring the Cost of Obesity to Texas Employers.

An increased focus on obesity has spawned a cottage industry of healthier menu and product items. While consumers have more healthy food options than ever before, analysts say consumers' waistlines are expanding, not shrinking. Yet, healthier options are driving sales.

Aiming to buck the super-size trend, Texas restaurant chain T.G.I. Friday's debuted its "Right Portion, Right Price" menu in 2007. The Carrollton-based company rolled out a variety of smaller portion entrees at lower prices.

"This is a category issue stemming from consumer demand," said Richard Snead, president and chief executive officer of Carlson Restaurants Worldwide, parent of T.G.I. Friday's restaurants.

"Healthier eating is becoming more of a concern for everyone, and restaurateurs are aware of that," said Wendy Saari, communications director for the Texas Restaurant Association. "As a restaurateur, you're always trying to meet your customers' demands and provide all kinds of alternatives, whether they're in the mood for a burger and fries or whether they're in the mood for a salad."

"Healthier eating is becoming more of a concern for everyone, and restaurateurs are aware of that."

Wendy Saari, communications director for the Texas Restaurant Association.

society's growing obesity crisis. Studies show obesity causes a number of chronic, expensive and life-threatening diseases such as diabetes and heart disease. Obesity cost Texas businesses \$3.3 billion in 2005, according to a March 2007 report by the Texas Comptroller's office, *Counting Costs and*

Portion Control

Restaurant and fast-food portion sizes have bloated in recent years. According to the National Alliance for Nutrition and Activity, in the 1950s a McDonald's original burger, fries and 12-ounce Coke had 590 calories. Today, the same meal in a "super size" delivers 1,550 calories.

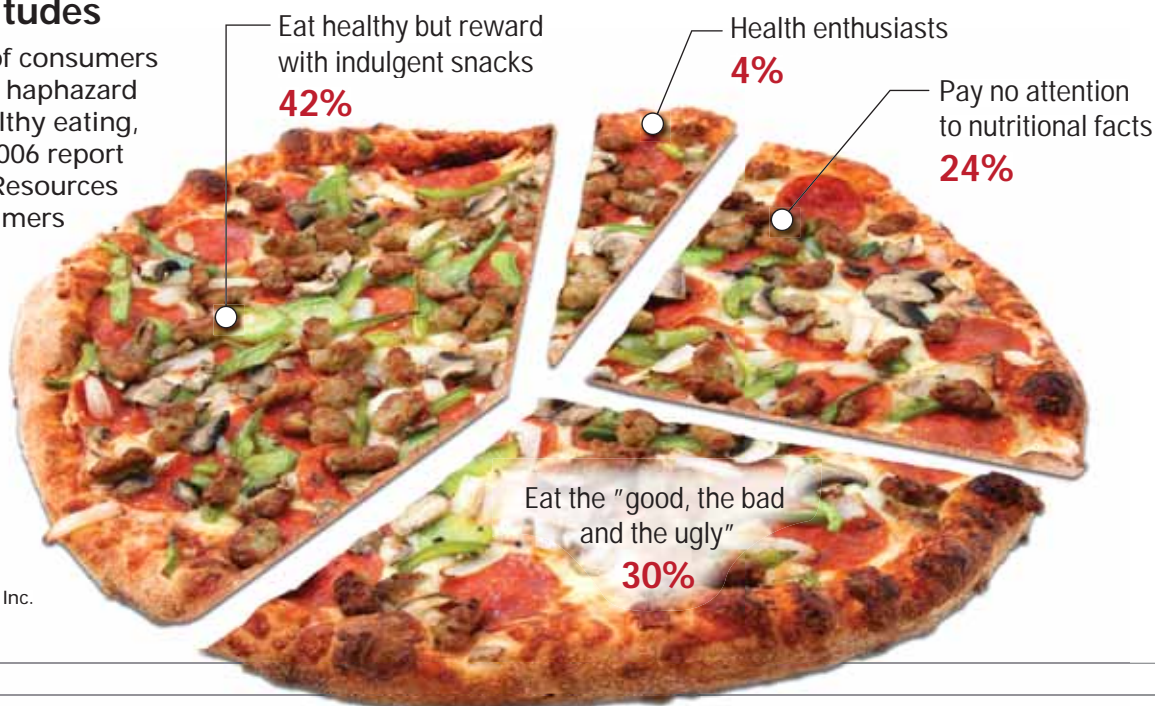
Economics of the Plate

In 2004, the average amount an urban resident spent on food was \$2,207 a year,

Healthy Attitudes

More than half of consumers surveyed take a haphazard approach to healthy eating, according to a 2006 report by Information Resources Inc. While consumers want to eat healthier, most are not willing to make major sacrifices to do so, according to the report.

Source: *Healthy Eating Trends*, January 2006, Information Resources Inc.



according to the U.S. Department of Agriculture (USDA). Families on average spent 9 percent of their disposable household income on food. Of that amount, they spent approximately 61 percent on food eaten at home and 39 percent on food in restaurants and fast-food establishments.

Average annual spending on food between 2003 and 2004 grew faster than inflation — food spending rose 8.5 percent for those years. The Consumer Price Index for food rose just 3.5 percent during that time.

The American food industry is booming. Overall the beverage and consumer packaged goods industry generates \$2.1 trillion in annual revenue and employs 14 million workers, according to the Food Products Association.

Slimmer Pickings

Food manufacturers are feeling the heat to slim down their offerings. Health and obesity is the biggest issue facing food and beverage executives, according to a 2006 survey of 124 food industry leaders by the Grocery Manufacturers Association and A.T. Kearney.

PepsiCo met this challenge in 2004 by launching its “Smart Spot” classification for products that meet nutritional guidelines set by the U.S. Food and Drug Administration. The Smart Spot stamp on products lets customers identify foods that are more nutritious or have reduced fat, sugar or sodium.

Jenna Anding, associate professor and extension nutrition specialist with the Texas Cooperative Extension, said she sees more healthy options.

“As the mother of a 5-year-old, I can now go into many restaurants, and there are

choices there that definitely were not there five years ago,” Anding said. “It’s great that I can go in and my child can have [chicken] nuggets and apples and milk instead of something fried and a soda.”

Fad or Trend?

Americans’ eating habits are slow to change, and for the most part, the increase in healthy food sales may be transitory, according to Harry Balzer, vice president of market research firm the NPD Group.

Dieting hit an all-time low in 2006, according to the NPD Group’s 2007 report, *Eating Patterns in America*. In 1990, 35 percent of women and 26 percent of men were on a diet. In 2006, those levels dropped to 26 percent of women and 19 percent of men.

“Dieting is at an all-time low, despite

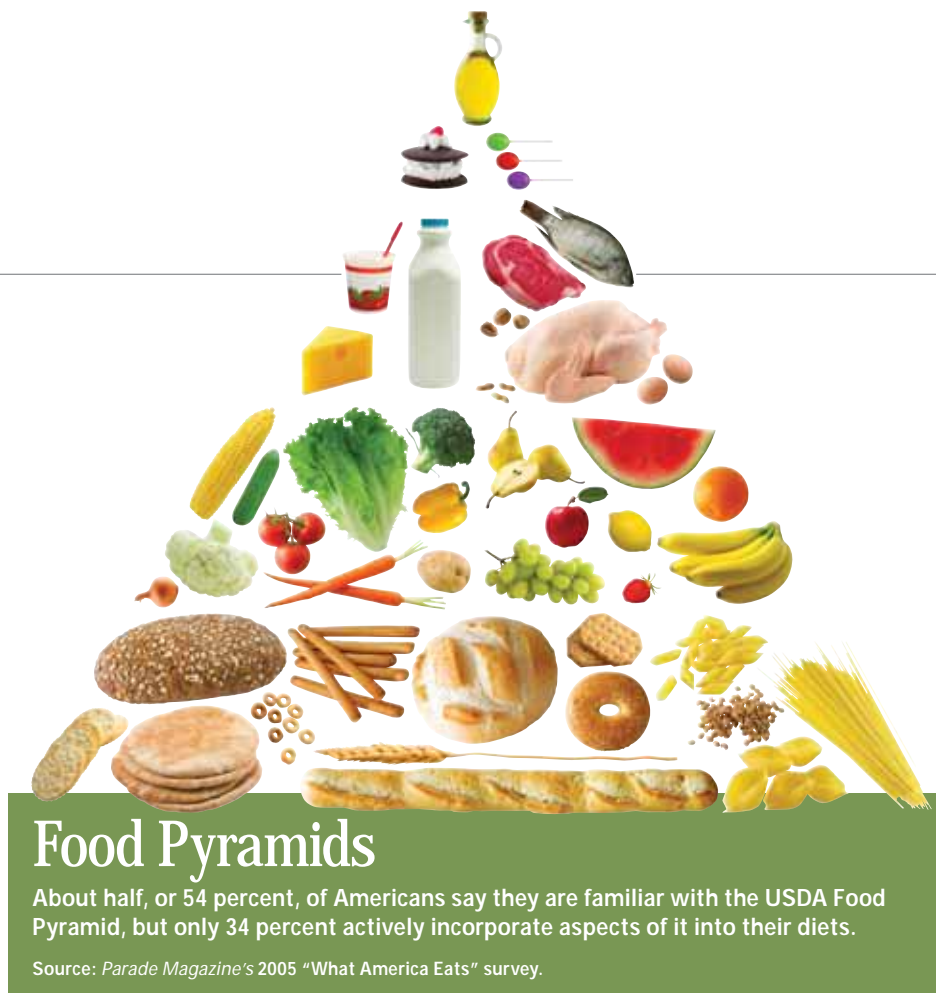
more Americans being overweight than ever before,” said Balzer.

Healthy Profits

Consumers now demand foods with nutritional value, in addition to being convenient and affordable, according to market research firm Information Resources Inc. (IRI). In its 2006 report, *Healthy Eating Trends*, IRI reports that “light” beverage, snack and dessert segments outpace the growth of their non-light counterparts.

The number of new products offering health benefits, such as whole grains or reduced calories, doubled in volume, while sugar sales declined in 2006. IRI maintains consumers’ increased demand for healthy foods will continue for the foreseeable future.

For more information on eating healthy, check out www.mypyramid.gov. For information on Texas’ obesity crisis, download and view the Comptroller’s report *Counting Costs and Calories: Measuring the Cost of Obesity to Texas Employers* at www.window.state.tx.us/specialrpt/obesitycost. **FN**



Food Pyramids

About half, or 54 percent, of Americans say they are familiar with the USDA Food Pyramid, but only 34 percent actively incorporate aspects of it into their diets.

Source: *Parade Magazine's* 2005 “What America Eats” survey.

In its 2006 report, *Healthy Eating Trends*, IRI reports that “light” beverage, snack and dessert segments outpace the growth of their non-light counterparts.

Going Green, Saving Green

Energy Efficiency Makes Dollars and Sense

Going green is getting bigger in Texas — and it can save homeowners a lot of the folding kind of green.

Rising energy prices and concerns about the potential impact of global warming are driving greater demand for energy-efficient or “green” homes across the nation. And the often-fierce Texas climate adds an additional motivation to cut spiraling utility bills.

Building Green

If you're building a home, you can take advantage of a wide variety of options to save energy.

“There's been a rapidly growing interest in green building,” said Ray Tonjes, owner of Ray Tonjes Builder Inc. and green building subcommittee chairman for the National Association of Home Builders. “It has become synonymous with energy efficiency and good stewardship.”

A “green” home depends upon both

energy efficiency and careful planning, according to Peter Pfeiffer of Austin's Barley and Pfeiffer Architects. That starts with issues as basic as how your home is adapted to its site.

“It's about how well a house is planned or thought out. Homeowners need to be conscious of how to situate their home to avoid being blasted by the afternoon sun, and how to take advantage of the natural surroundings to achieve energy efficiency,” Pfeiffer said.



1

Deep overhangs block harsh sunlight and rain from windows.



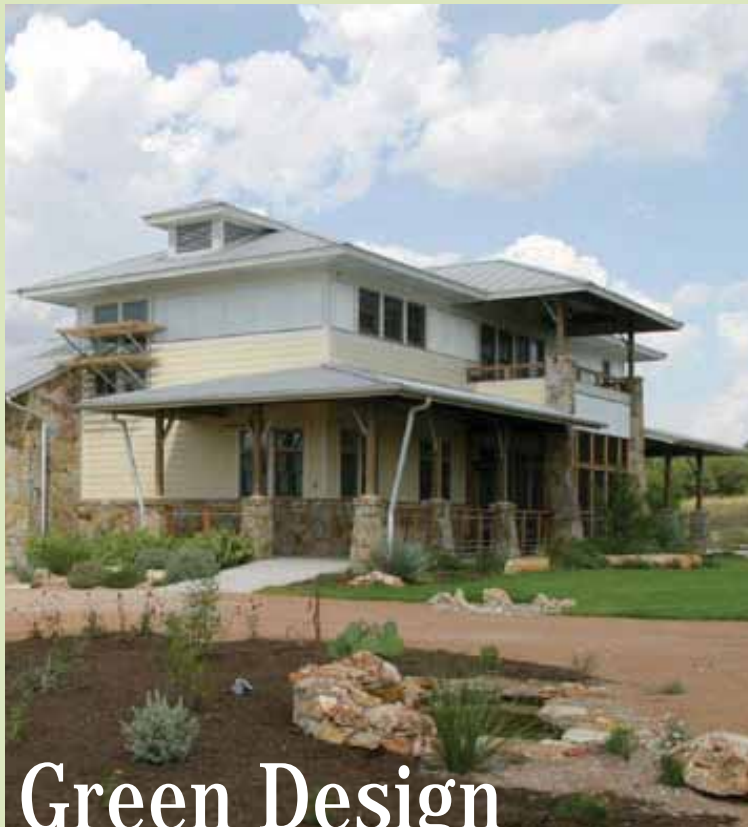
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Weather barriers, as shown here, should be installed on the warm side of a wall to prevent the infiltration of humidity into the wall or roof cavity.



3

A reflective metal roof acts as a barrier to prevent excess radiant heat, and the black building felt underneath it acts as a vapor barrier.



Green Design

Green Design extends the reach of building science to cover the environmental ramifications of each project. It involves a range of ideas from the use of solar power to something as simple as the use of day lighting to reduce the need for electric lighting. Proper green design must be climate and site specific, and must minimize waste while maximizing efficiency.

Source: Barley & Pfeiffer Architects, Austin, Texas.
House Exterior Photos: Courtesy of Connie Moberly, IMAGIZ Photography.



4

Heating and cooling ducts should be properly sealed and insulated.



5

A hydronic system serves as a water heater and a home heating system.



6

Proper insulation results in an air-tight thermal envelope, allowing air conditioning units to operate more efficiently.

If your house and lot don't offer shading from the hot Texas sun, solar screens can block up to 70 percent of sunlight, lowering the heat it transfers into your house, according to the State Energy Conservation Office.

For instance, Pfeiffer designs covered porches and extended overhangs on homes with windows facing west. "This allows you to enjoy the view and not have the solar heating," Pfeiffer said. "Just responding to the Texas sun in an appropriate manner can cut air conditioning bills by 50 percent."

Landscaping can make a big difference, too. "You want to have plants and grass that are more drought-tolerant," said Glenn Jennings of the State Energy Conservation Office (SECO), a division of the Comptroller's office. "And you can get a 25 to 30 percent cut in utility bills if trees are placed appropriately to shade the house."

According to Jennings, insulation is one of the best investments a homeowner can make — not only in the walls and attic, but also around ducts and hot water pipes, to keep heating and cooling energy where it needs to be. And insulation can be backed up with a radiant barrier — a reflective layer of material such as metallic foil placed under a roof. A radiant barrier and proper insulation can reduce heat transfer into the house by 25 percent.

Pfeiffer advises homeowners to take care of basics like these before adding what he calls "toys of green building," such as geothermal heat pumps. Pfeiffer compares poorly designed homes that have so-called green features to a "vitamin-enriched cigarette."

CONTINUED PAGE 10

Where's the money going?

One factor driving higher utility costs is the simple fact that Americans are using more appliances than ever before — making energy-efficient appliances a good way to begin bringing those monthly bills down.

Average Daily Electricity Usage and Costs for Common Appliances

Appliance	Time Used	Cost*
Microwave	15 minutes	3 cents
Iron	15 minutes	3-4 cents
Toaster	15 minutes	3-4 cents
Hair Dryer	15 minutes	4 cents
Vacuum Cleaner	30 minutes	5-6 cents
Clothes Washer	45 minutes	4 cents
Coffee Maker	1 hour	2 cents
Dishwasher	1 hour	15 cents
Clothes Dryer	1 hour	45 cents
Water Heater	1 hour	45 cents
DVD Player	2.5 hours	2 cents
Home Computer	3 hours	7 cents
Radio/Stereo	3 hours	13 cents
Dehumidifier	3 hours	24 cents
Portable Heater	3 hours	45 cents
Flat-Screen TV	4 hours	5 cents
Ceiling Fan	6 hours	6 cents
Electric Blanket	8 hours	7 cents
Clock Radio	24 hours	2 cents
Refrigerator	24 hours	58 cents

* Based on an average cost of 10 cents per 1000 watts of electricity used in one hour (1 kWh).

Source: City of San Marcos Electric Utility.

Power Paybacks

According to the U.S. Department of Energy (DOE), the typical American family spends more than \$1,600 on utility bills each year — and a large part of that money is wasted, due to inefficient appliances, poor insulation, leaky air ducts and the like.

But investments in energy efficiency can pay off in a big way. Some DOE money-saving ideas:

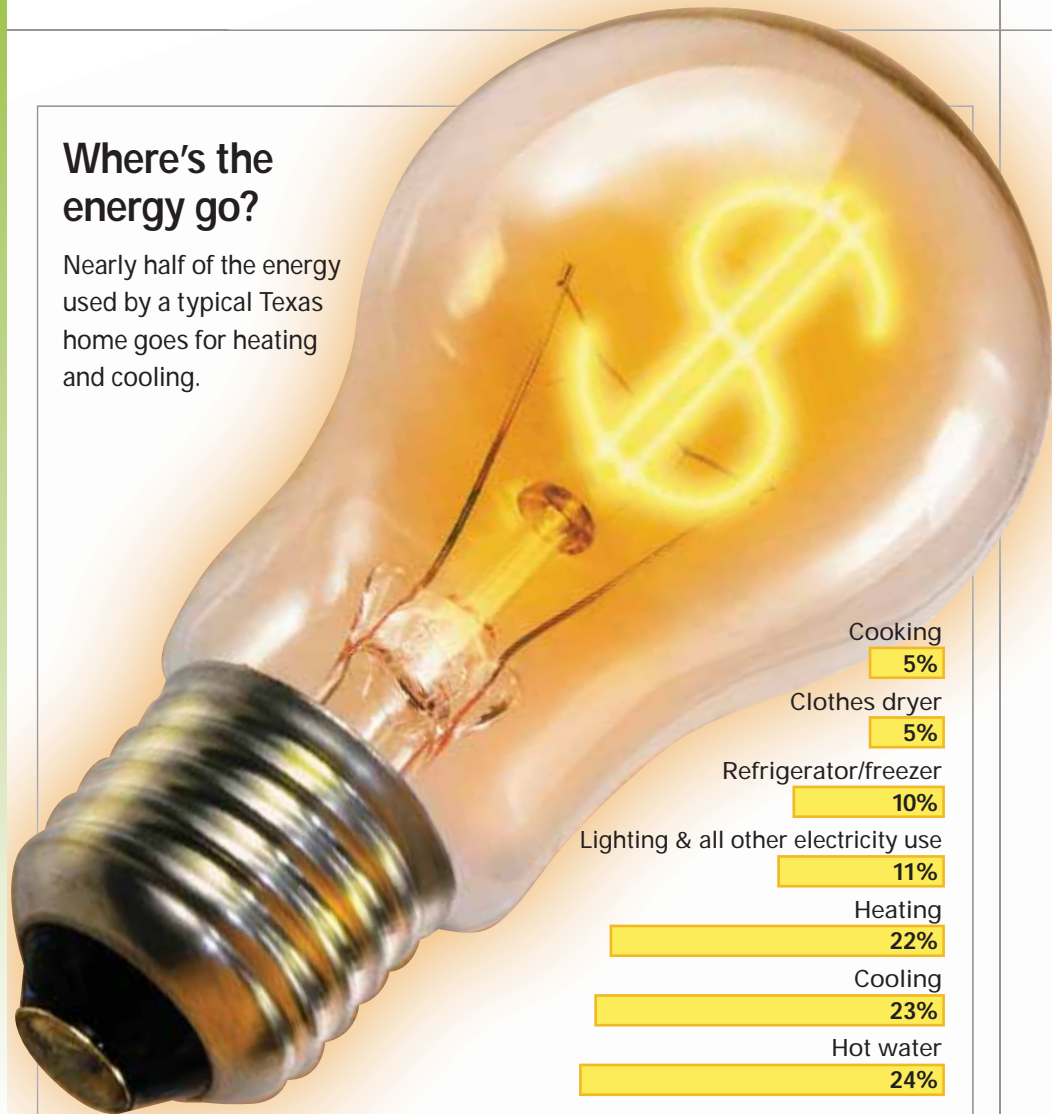
- Energy-efficient compact fluorescent light (CFL) bulbs can reduce your lighting energy use by 50 to 75 percent over incandescent bulbs.
- Using a programmable thermostat to reduce heating or cooling when you're at work or asleep can shave your energy bills by as much as 10 percent a year.
- On-demand or "tankless" water heaters can produce energy savings of up to 30 percent.
- Air conditioning units that are shaded from the sun by trees or shrubs use as much as 10 percent less electricity than those operating in full sun.
- Windows with "spectrally selective" coatings that reflect back some sunlight can cut your home's cooling load by 10 to 15 percent.

Source: U.S. Department of Energy.

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Where's the energy go?

Nearly half of the energy used by a typical Texas home goes for heating and cooling.



Source: State Energy Conservation Office.

For instance, homebuilders used to ventilate attic spaces in an effort to dissipate heat above a home's living space. But Pfeiffer said ventilated attics do not dissipate heat well as the sun's radiant heat builds up, and allow humidity to pass through the fiberglass insulation and sheetrock into the home's living space.

"Ventilated attics don't do any good in Texas," Pfeiffer said. "They bring in humidity, which adds to the work load of the air conditioning unit and makes your home less comfortable."

"There is no point to having the toys of green building without addressing the

basics," Pfeiffer said. "They are just icing on the cake. If you don't have the design correct then you don't have a green home."

Smart Planning Cuts Costs

But even if you live in an older home, you can use a number of simple measures to cut your energy bill. Many Texas cities have "green" programs that provide rebates or low-cost loans for retrofits designed to save energy, Jennings said.

But Tonjes warned homeowners to carefully weigh expensive options to improve energy efficiency, such as replacing windows and heating and air conditioning



Solar screens can block up to 70 percent of the summer's sun and heat.

units. He recommends you try less costly and more practical options first. "Homeowners should chop away at energy efficiency," Tonjes said. "There is a natural inclination to get a new AC and heater, but there are things that should be done first."

"Your house should work as a system," agreed Jennings. "Instead of getting the biggest air conditioner you can, a lot of low-cost measures will let you get away with a smaller unit that's more energy efficient, and stay comfortable."

"One of the things we tell homeowners about, right off the bat, is lighting," Jennings said. "EPA estimates that a typical household can save \$80 each year, and \$30 over the life of each bulb, if they replace their old bulbs with compact fluorescents, because they last a lot longer and use a lot less electricity."

And don't underestimate the value of a few \$3 tubes of caulk. SECO reports that air leaks from areas such as door jambs can account for nearly half of a home's heating and cooling costs.

Poorly sealed air ducts also drive up your bills. The city of Austin reports that ducts in the average older home can leak up to 40 percent of your heating and cooling into the attic. "If your home is older, get your ducts checked and get them sealed," Jennings said. "The bottom line is, make sure you're moving the cold or hot air to where it's supposed to be going."

Another easy and inexpensive way to save energy is to invest in a programmable thermostat. The Texas Commission on Environmental Quality recommends programming your thermostat for 78 degrees or higher in the summer and for 68 degrees or lower during the winter. And you can set your thermostat to give the heating and cooling system a breather on days when



"EPA estimates that a typical household can save \$80 each year, and \$30 over the life of each bulb, if they replace their old bulbs with compact fluorescents, because they last a lot longer and use a lot less electricity." **Glenn Jennings**, program specialist, State Energy Conservation Office.

you are going to be away from home for more than four hours.

If your house and lot don't offer shading from the hot Texas sun, solar screens can block up to 70 percent of sunlight, lowering the heat it transfers into your house, according to SECO.

And don't forget your appliances. "They're a really important factor that people sometimes forget about," said Jennings. The next time you're going to buy an appliance, make sure it's an Energy Star — that is, an appliance identified by the federal

ENERGY STAR program as energy efficient. "It really simplifies your decision making. If it's Energy Star, not only is it going to be energy efficient, but it's probably going to be a better-made unit."

For more information on energy efficiency, visit the State Energy Conservation Office Web site at www.seco.cpa.state.tx.us/, the U.S. Department of Energy's Energy Savers Web site at www1.eere.energy.gov/consumer/tips/index.html or contact your local utility or water provider. **FN**

New Laws Affect Taxpayers, State Finances

Work of the 80th Texas Legislature Has Immediate Impacts

The 80th Texas Legislature wrapped up its work on May 28, 2007, after considering nearly 11,000 bills and resolutions and passing almost 6,000 of them. As always, a number of those bills will affect various aspects of Texas taxes and finances, and as a result, the mission of the Comptroller's office, the state's primary banker and bookkeeper. Below are a few highlights followed by details on how to learn more about all the new legislation.

Fighting Tax Fraud and Delinquency

House Bill 11 imposes new reporting requirements on wholesalers and distributors of alcohol and tobacco products.

HB 11 addresses a growing concern over tax fraud in the area of sales and use taxes on alcohol and tobacco; investigators have found that some convenience store operators collect these taxes from the public but do not pass the revenues along to the state.

The new law allows the Comptroller to require wholesalers and distributors of beer, malt liquor, wine, cigarettes, cigars and tobacco products to electronically furnish the agency with information about their sales to retailers. HB 11 is expected to tighten tax reporting and discourage fraud while adding \$289 million to state general revenue through fiscal 2012.

House Bill 3314, the first comprehensive tax collections and enforcement bill passed in many years, will facilitate the collection of state taxes and ensure that the state always has a remedy to pursue in cases of tax delinquencies. Its passage should increase voluntary compliance with state tax laws

and help minimize the need for additional revenue sources in future years.

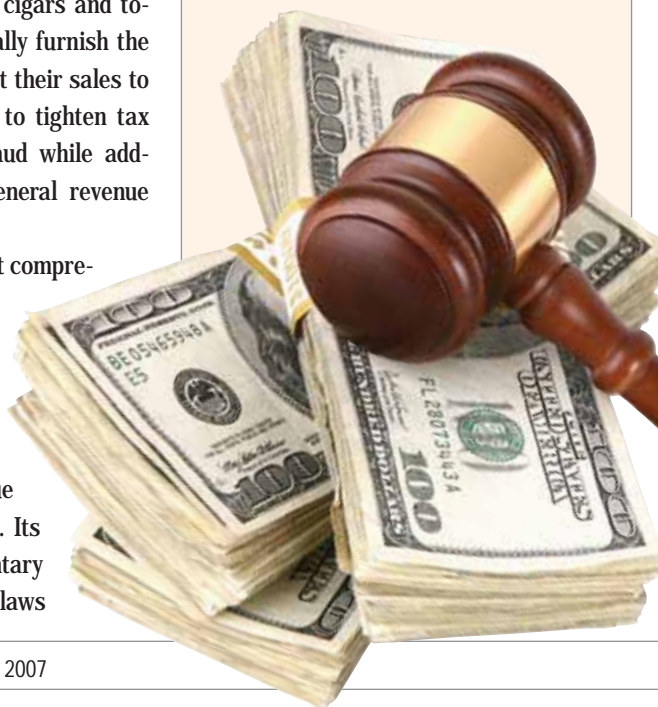
Sales Tax Administration

House Bill 3319 makes a number of changes to Texas' sales and use tax law.

- **Sales Tax Holiday:** The state's annual sales tax "holiday" moves from the first weekend to the third weekend in August. In addition, backpacks for use by a student in elementary or secondary school join the list of items that may be purchased tax-free during the three-day holiday period.

- **Over-the-counter drug exemption:** "Over-the-counter" drugs and medicine that are required to have a federal Food and Drug Administration "Drug Facts" panel label are now exempt from Texas sales tax.

Comptroller Susan Combs transferred the administrative law judges to SOAH shortly after taking office in January 2007 to assure taxpayers would receive fair and impartial treatment in tax disputes.



- **Local tax on services:** Local taxation of most taxable services is now based on the provider's place of business, just like with sales of tangible personal property. There is one new exception, with nonresidential real property repair and remodeling now sourced to the job site.

- **Local tax collection responsibilities of retailers:** HB 3319 stipulates that retailers are responsible for collecting local sales and use taxes only for taxing jurisdictions in which they are engaged in business.

House Bill 142 requires a seller to collect transit tax on all sales of taxable items shipped or delivered in Texas from a place of business within a transit authority. Before this change in the law, a seller within a transit authority would only collect the transit tax on items delivered within the transit authority. With the change, transit tax is collected regardless of the destination.

"Occasional" Online Sales

House Bill 373 is intended to give a break to the increasing number of Texans who sell personal property in online auctions. Under prior law, any individual selling more than two taxable items in a year was legally required to collect sales tax and acquire a retailer permit.

The new law expands the Texas Tax Code's definition of "occasional sales," which are not subject to sales tax, to include sales of personal property by individuals if the property was purchased for personal use; the seller does not hold a sales tax permit and is not required to hold one, and does not use an auctioneer or broker other than an online auction house to sell the property; and total receipts from sales do not exceed \$3,000 in a calendar year.



Governor Rick Perry signing House Bill 11 on July 12, 2007 in Austin.

Lower Phone Bills

House Bill 735 abolishes the Telecommunications Infrastructure Fund (TIF) assessment, an annual fee on each telephone company doing business in Texas. The new law will end this fee, typically passed on to customers by telephone companies as a reimbursement fee, as of Sept. 30, 2008.

Franchise Tax Changes

In 2006, the 79th Texas Legislature established a new mechanism for calculating the business franchise tax and revised the base and entities subject to the tax.

House Bill 3928 furthers those revisions in a number of ways. The new law expands the definition of “taxable entity”; creates a sliding discount scale on tax liabilities for businesses with total revenues ranging from \$300,000 to less than \$900,000; provides an optional, alternative method for calculating tax liabilities for businesses with total annual revenues of \$10 million or less; and provides an additional compensation deduction for certain small employers that initiate health care coverage for employees.

The new law also provides clarification of the transition provisions of the revised franchise tax in Section 22 of HB 3, 79th Legislature, Third Called Session.

Economic Development

The Texas Economic Development Act of 2001 allows school districts to grant limitations on taxable property value for

certain types of large-scale projects, to help attract new jobs to the state. **House Bill 1470** ensures that the act will continue until Dec. 31, 2011.

Other laws passed this session (**House Bill 2994**, **House Bill 3430** and **House Bill 3693**) require the Comptroller’s office to provide each new Legislature with a report on the success of this important economic development tool.

Tax Information

Senate Bill 190 requires the Comptroller, upon request, to provide certain taxpayer information to municipalities that levy a municipal sales and use tax but do not impose a property tax. This information includes the amount of municipal sales tax paid for the previous or current calendar year by each person doing business in the municipality who annually pays more than \$500 in sales taxes.

Electronic Tax Reports and payments

Senate Bill 377 amends the Tax Code to give the Comptroller greater flexibility in setting electronic payment and reporting requirements.

The new law directs the Comptroller to require all taxpayers who paid \$10,000 or more in certain tax categories during the preceding fiscal year to transfer payments to the agency by electronic funds transfer, if the Comptroller reasonably anticipates that the taxpayer will pay at least that amount during the current fiscal year. This section took effect June 15, 2007.

SB 377 also allows the Comptroller to require any taxpayer who paid \$50,000 or more during the preceding fiscal year to file tax reports electronically during the current fiscal year. The taxpayer may use software provided by the Comptroller or commercially available software that satisfies the agency’s requirements. This section takes effect Sept. 1, 2008.

Requiring more taxpayers to submit payments and reports electronically is expected to generate more than \$449,000 in 2008 general revenue.

Contested Tax Cases

Senate Bill 242 transfers all contested tax cases previously authorized to be heard by administrative law judges in the Comptroller’s office to the State Office of Administrative Hearings (SOAH). Comptroller Susan Combs transferred the judges to SOAH shortly after taking office in January 2007 to assure taxpayers would receive fair and impartial treatment in tax disputes. SB 242 officially completes that change. Previously, employees of the Comptroller were judging cases in which one of the parties was a division of the Comptroller’s office.

“When a taxpayer disagrees with the Comptroller’s office, that taxpayer is entitled to a fair and impartial hearing,” Combs said. “It is imperative to move tax hearings out of the Comptroller’s office, to remove any appearance of bias and ensure that the integrity of the hearing process is beyond question.”

View summaries of these bills and others impacting the work of the Comptroller’s office on the Window on State Government Web site at www.window.state.tx.us/taxinfo/taxpnw/tpn2007/tpn707.html.

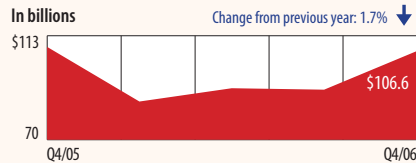
Full-text searches on all bills can be performed online at www.capitol.state.tx.us/. Be sure to search for bills from the 80th Regular Session — 2007. **FN**

Texas by the Numbers

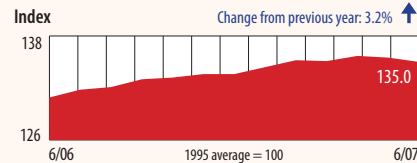
Key Economic Indicators

The Texas unemployment rate is at its lowest level since January 2001, supported by hiring in the oil and gas, construction, and professional and business services industries. A shortage of skilled workers in some industries is suppressing overall job growth. Even though the Texas housing market has eased up, the state still is adding jobs at a clip well above the national growth rate of 1.5 percent. Texas' underlying economic fundamentals are relatively solid, and credit quality in the state is holding up better than that nationwide.

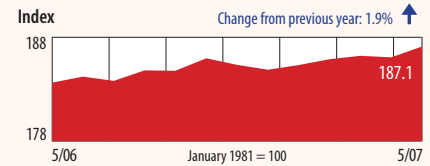
Retail Sales



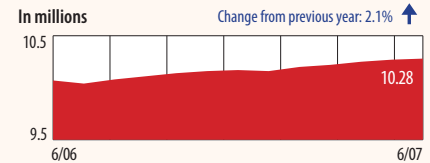
Industrial Production



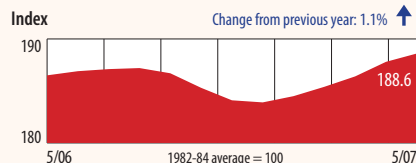
Leading Indicators



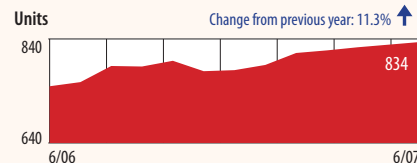
Non-farm Employment



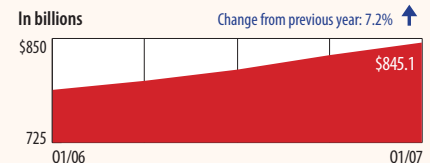
Consumer Price Index (Texas)



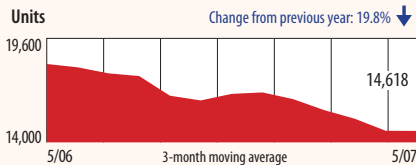
Oil and Gas Rigs



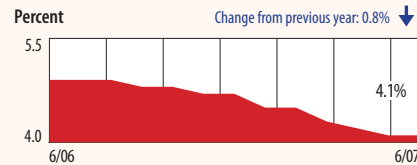
Personal Income



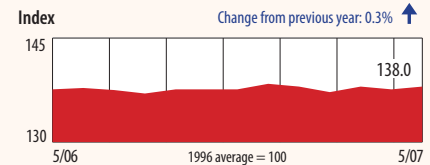
Housing Permits



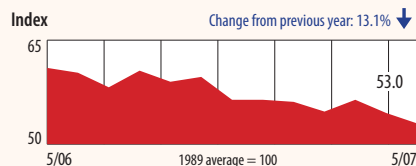
Unemployment Rate



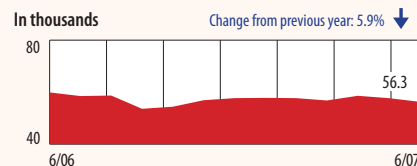
U.S. Leading Indicators



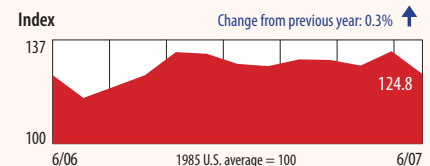
Help Wanted



Unemployment Initial Claims



Consumer Confidence (Tx, La, Ok, Ar)



Texas Production and Consumption Indicators

(Amounts in millions)

Date	Crude Oil		Natural Gas		Motor Fuel (in gallons)		Cement	Auto Sales	Cigarette
	Barrels	Value	Thousands of Cubic Ft.	Value	Gasoline	Diesel	Tons	Net Value (Estimated)	Pkgs. Taxed
2002	350.4	\$8,535.3	3,132.2	\$8,691.1	11,353.6	3,107.4	13.6	\$41,585.8	1,270.3
2003	339.3	9,962.3	3,018.6	13,670.1	11,379.2	3,216.7	14.9	39,296.2	1,234.3
2004	328.7	12,796.7	2,941.0	14,975.8	11,326.8	3,305.9	15.1	39,174.6	1,228.9
2005	326.3	17,199.5	3,097.6	20,931.6	11,285.5	3,463.3	16.6	41,955.3	1,239.0
2006	317.8	19,548.0	3,697.7	21,472.3	11,372.8	3,731.6	17.1	45,756.2	1,280.2
Last 13 months	5/06-5/07	5/06-5/07	5/06-5/07	5/06-5/07	6/06-6/07	6/06-6/07	5/06-5/07	6/06-6/07	6/06-6/07
	27.4	\$1,819.3	312.8	\$1,756.8	1,010.0	300.7	1.50	\$4,040.8	110.9
	26.4	1,754.8	298.4	1,595.5	943.5	326.3	1.53	4,186.8	102.3
	26.8	1,872.5	314.3	1,734.2	954.8	321.6	1.32	4,020.0	108.2
	26.7	1,839.4	322.1	1,971.8	960.8	322.0	1.57	4,331.1	109.6
	25.8	1,552.2	313.9	1,732.0	959.8	313.4	1.40	4,118.4	107.6
	26.9	1,477.6	329.2	1,357.4	969.3	326.5	1.40	3,989.7	124.6
	26.1	1,419.3	327.8	1,957.9	942.2	299.9	1.43	3,436.7	117.3
	26.6	1,511.2	349.5	2,144.0	963.1	300.9	1.32	3,336.3	75.0
	26.1	1,312.1	339.5	1,760.8	923.2	299.5	1.16	3,669.5	68.5
	24.1	1,331.1	316.6	1,927.7	880.2	304.8	1.32	3,717.8	96.9
	26.7	1,519.5	365.2	2,238.1	968.2	369.2	1.54	4,128.7	109.7
	25.9	1,544.5	348.7	2,146.9	983.1	248.5	1.50	4,233.3	92.3
	26.0	1,528.8	343.6	2,259.7	1,002.3	326.8	1.47	4,227.3	89.5

Notes: Crude oil and natural gas show taxable production and net taxable value for the production month. Oil and gas data are revised monthly from taxpayer records. Gasoline gallons include gasoline. Auto sales estimates are calculated from motor vehicle taxes that include taxable transactions in addition to the sale of new and used motor vehicles. Previous year totals may not match totals shown online due to updates. Annual figures are for calendar years.

Sources for Data

Retail Sales, Leading Indicators Index, Help-Wanted Index, Industrial Production Index: Texas Comptroller of Public Accounts

Non-farm Employment, Unemployment Initial Claims: Texas Workforce Commission

Texas Consumer Price Index: Texas Comptroller of Public Accounts and U.S. Bureau of Labor Statistics

Unemployment Rate: U.S. Bureau of Labor Statistics

Oil/Gas Rig Count: Baker-Hughes Inc.

Consumer Confidence Index: The Conference Board

U.S. Leading Indicators Index, Personal Income: U.S. Bureau of Economic Analysis

Texas Housing Permits: U.S. Bureau of the Census

Notes: All figures are seasonally adjusted, except for the rig count, retail sales and consumer confidence. All figures are monthly except for retail sales and personal income, which are quarterly.

Figures are based on most recent available data.

June Cash Condition¹

(Amounts in millions)	General Revenue	Other Funds	Total Cash
Beginning Balance June 1, 2007	\$13,085.3	\$10,913.7	\$23,999.0
Revenue/Expenditures			
Revenue	5,430.8	1,426.9	6,857.7
Expenditures	5,204.4	1,822.9	7,027.3
Net Income (outgo)	\$226.4	\$-396.0	\$-169.6
Net Interfund Transfers and			
Investment Transactions	\$-1,408.2	\$2,293.7	\$885.5
Total Transactions	-1,181.8	1,897.7	715.9
End Cash Balance June 30, 2007²	\$11,903.5	\$12,811.4	\$24,714.9

¹ Cash stated is from the Comptroller's Uniform Statewide Accounting System (USAS) and will vary from the amounts reflected in the cash accounts of the Treasury Operations Division of the Comptroller's office due to timing differences. Net amounts shown (less refunds) exclude funds that are authorized to be held outside the State Treasury and are not processed through USAS. Suspense and Trust Funds are included, as are unemployment compensation trust funds collected by the state but held in the Federal Treasury. Totals may not add due to rounding.

² The ending General Revenue Fund Balance includes \$2.2 billion derived from the sale of cash management notes.

State Revenue/All Funds¹

(Amounts in millions)	Monthly Revenue	Fiscal Year-to-Date Sept. 2006-June 2007	
	June 2007	Revenue	% Change YTD/YTD
Tax Collections by Major Tax			
Sales Tax	\$1,642.0	\$16,706.4	11.3%
Oil Production Tax	70.9	679.1	-4.2
Natural Gas Production Tax	157.3	1,531.9	-24.8
Motor Fuels Taxes (Gasoline, Diesel, LPG)	265.9	2,533.8	2.0
Motor Vehicle Sales/Rental and			
Manufactured Housing Taxes	281.5	2,710.0	8.5
Franchise Tax	51.6	2,766.0	17.7
Cigarette and Tobacco Taxes	127.7	975.3	117.7
Alcoholic Beverages Taxes	65.3	604.4	7.1
Insurance Taxes	20.2	842.9	11.0
Utility Taxes ²	0.1	351.1	8.5
Inheritance Tax	0.1	4.3	-62.1
Hotel and Motel Tax	30.4	276.2	11.7
Other Taxes ³	2.9	1,043.7	-30.2
Total Tax Collections	\$2,715.9	\$31,025.0	7.2%
Revenue by Receipt Type			
Tax Collections (see above)	\$2,715.9	\$31,025.0	7.2%
Federal Income	2,123.3	20,149.3	-1.3
Interest and Investment Income	312.3	2,324.2	21.4
Licenses, Fees, Permits, Fines and Penalties	560.0	5,660.3	13.9
Employee Benefit Contributions	416.4	3,703.2	5.1
Sales of Goods and Services	62.3	403.0	-5.5
Land Income	55.3	657.6	-8.6
Net Lottery Proceeds ⁴	117.3	1,282.8	-4.1
Other Revenue Sources	494.9	5,635.0	5.8
Total Net Revenue	\$6,857.7	\$70,840.4	4.8%

¹ Excludes revenues for funds that are authorized to be held outside the State Treasury and are not processed through USAS. Totals may not add due to rounding.

² Includes the utility, gas utility administration and public utility gross receipts taxes.

³ Includes the cement and sulphur taxes and other occupation and gross receipt taxes not separately identified.

⁴ Gross sales less retailer commissions and the smaller prizes paid by retailers.

State Expenditures/All Funds¹

(Amounts in millions)	Monthly Expenditures	Fiscal Year-to-Date Sept. 2006-June 2007	
	June 2007	Expenditures	% Change YTD/YTD
By Object			
Salaries and Wages	\$746.2	\$7,930.9	5.4%
Employee Benefits/			
Teacher Retirement Contribution	648.0	6,583.8	7.5
Supplies and Materials	66.3	650.1	0.3
Other Expenditures	215.2	2,105.7	6.7
Public Assistance Payments	2,577.0	24,895.2	8.1
Intergovernmental Payments:			
Foundation School Program Grants	1,178.2	12,697.2	55.4
Other Public Education Grants	450.6	3,732.1	-39.2
Grants to Higher Education	88.6	815.7	-2.5
Other Grants	179.4	1,717.0	-20.6
Travel	11.4	111.9	11.7
Professional Services and Fees	133.1	1,636.7	3.1
Payment of Interest/Debt Service	52.8	617.6	34.1
Highway Construction and Maintenance	481.3	4,744.8	5.7
Capital Outlay	33.1	281.6	-17.7
Repairs and Maintenance	42.6	458.2	1.4
Communications and Utilities	39.4	389.7	-24.0
Rentals and Leases	17.3	200.4	-0.8
Claims and Judgments	6.1	67.1	-22.0
Cost of Goods Sold	57.4	711.8	24.3
Printing and Reproduction	3.4	37.2	9.6
Total Net Expenditures	\$7,027.3	\$70,384.6	7.5%

By Function

General Government			
Executive	\$427.5	\$4,355.6	2.9%
Legislative	10.3	106.7	10.0
Judicial	14.4	188.6	14.3
Subtotal	452.3	4,650.9	3.5
Health and Human Services	2,471.4	24,048.8	8.2
Public Safety and Corrections	309.0	3,240.3	-10.9
Transportation	675.5	6,635.0	3.9
Natural Resources/Recreational Services	157.2	1,509.2	11.7
Education	2,275.0	23,170.5	12.3
Regulatory Agencies	19.8	200.5	-1.0
Employee Benefits	548.5	5,639.1	6.2
Debt Service—Interest	52.8	617.6	34.1
Capital Outlay	33.1	281.6	-17.7
Lottery Winnings Paid ²	32.7	391.1	-4.3
Total Net Expenditures	\$7,027.3	\$70,384.6	7.5%

¹ Excludes expenditures for funds that are authorized to be held outside the State Treasury and are not processed through USAS. Totals may not add due to rounding.

² Does not include payments made by retailers. Previously shown as "Other expenditures."

Some revenue and expenditure items have been reclassified, changing year-to-date totals. The ending cash balance is not affected because changes reflected in "total net revenues" and "total net expenditures" offset changes in "net interfund transfers and investments transactions" in the cash condition table.

Revenues and expenditures are reported for the most recent month available and as a running total for the current fiscal year-to-date. In addition, year-to-date figures are compared with the same period in the last fiscal year. These comparisons are reported as percentage changes, which may be positive or negative (shown by a minus sign).

Trust fund transactions are included within revenues and expenditures in the "all funds" presentations. Trust funds are not available to the state for general spending.

Texas Stats Production: Tyra Peterson, Public Outreach and Strategies Division.
Economic Data: Winfred Kang and Gary Preuss, Revenue Estimating Division.
State Financial Tables: Ann Zigmond, Fund Accounting Division.

SUSAN COMBS

Texas Comptroller of Public Accounts



FISCAL NOTES is one of the ways the Comptroller's office strives to assist taxpayers and the people of Texas. The newsletter is a by-product of the Comptroller's constitutional responsibilities to monitor the state's economy and to estimate state government revenues.

FISCAL NOTES also provides a monthly summary of the financial statements for the State of Texas.

Articles and analysis appearing in **FISCAL NOTES** do not necessarily represent the policy or endorsement of the Texas Comptroller of Public Accounts. Space is devoted to a wide variety of topics of Texas interest and general government concern.

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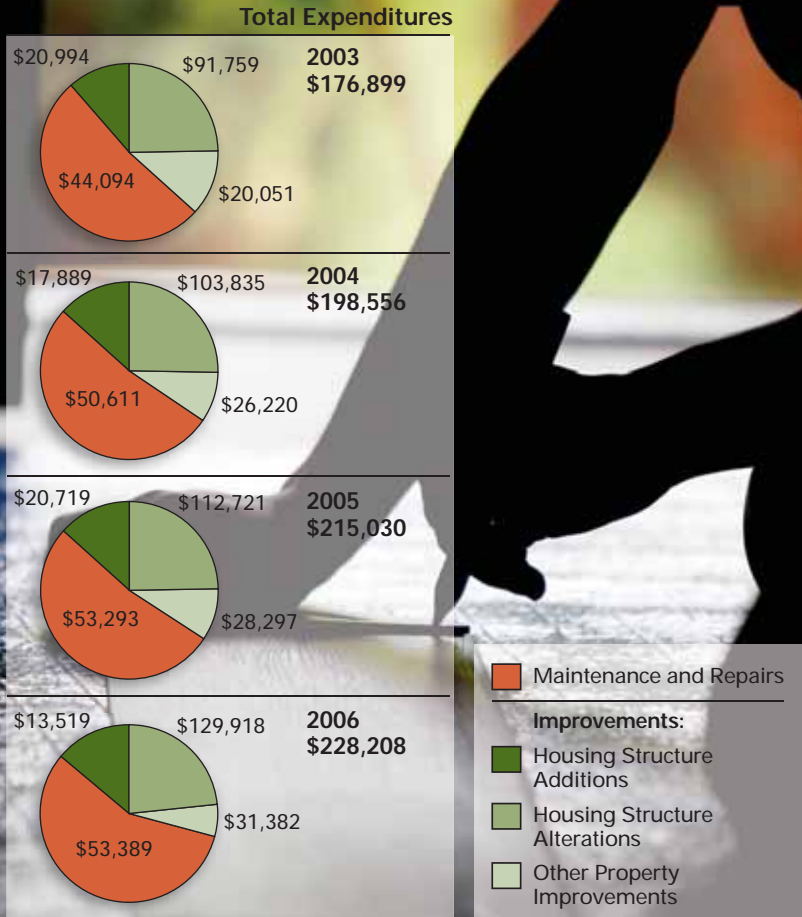
September 2007

A Nation of Fixer-Uppers

Americans' spending on home maintenance, repairs and improvements has risen by nearly 29 percent over the past four years, to a 2006 total of \$228.2 billion.

U.S. Expenditures for Residential Improvements and Repairs by Property Type, 2003-2006

(In millions)



Note: Totals may not add due to rounding.
Source: U.S. Census Bureau.

FISCAL NOTES

A Monthly Review of the Texas Economy from the Office of Susan Combs, Texas Comptroller of Public Accounts

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